



RECESSION LESSONS FOR PERSONAL FINANCE

Now that the economy seems to be slowly emerging from the recession, there's a lot of talk about lessons learned. Economists, bankers, corporate executives, politicians and others whose decisions affect the world's economic well-being now claim they see their mistakes and have learned from them.

But what about you and your personal finances? Can what happened on the global stage leading up to the worst recession since the Great Depression teach you anything about how to manage your household budget? It certainly can. Here are four recession lessons that apply to anyone's finances.

- » **In good times, prepare for bad times:** This one is as old as the fable of the ant and the grasshopper, but many "financial geniuses" ignored it. Banks, corporations, investors and others acted as if the good times would never end. That impression filtered all the way down the economic system, to homeowners who thought their houses would increase in value forever and to people who figured an ever-climbing stock market would fatten their 401Ks until they could retire as millionaires. History and common sense said this couldn't last, and it didn't. Don't make the same mistakes. When you're flush with cash is the time to increase savings and pay down debt.
- » **Use credit sparingly and wisely:** Credit flowed like water through world economies in the lead-up to the recession. Great financial institutions made loans as if there were zero risk of default. Borrowers took huge loans as if payments would never come due. Down the line were people who accepted more credit cards than their wallets could hold or signed on to mortgages they could never repay. The lesson for you is to use credit only when it's absolutely necessary, not because it's convenient. Keep your debt load low. Being debt free makes it a lot easier to weather tough times.
- » **Understand the state of your finances:** It's amazing how many of the businesses that failed or had to be bailed out in the recession thought the new "financial instruments" they invested in were risk free, when, in fact, they were very risky. The same goes for the corporate leaders who said they had no idea so much of their corporations' assets were tied up in these investments. It's your business to know the facts about your finances. You absolutely must at a minimum know the bottom-line basics – how much money you have coming in and how much you're spending.
- » **Always have a Plan B:** Companies that flourished many years by doing one thing well either failed or needed outside help when their markets collapsed during the recession. Automakers, newspapers and giant retail chains were among those that suffered because they had no fallback. You can avoid this trap if you diversify and give yourself as many options as possible in all areas of your finances. For example, if you're relatively young, think about marketable skills you can develop in case you become unemployed and jobs are scarce in your current profession. If you're headed toward retirement, think about what you'll do if you're not going to be as well off as you hoped. You may decide to arrange for part-time work or to earn income through consulting. Or you might find that lifestyle adjustments will make your money go much further. Your goal should be to enable yourself to do what you choose to do financially, not simply what you're forced to do.

The movers and shakers of global finance have spoken with one voice, saying they've learned their lesson and will never let this happen again. Well, you can't do anything about their global finances. But when it comes to your personal finances, the lessons you've learned from their mistakes can make all the difference in the world.

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